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UI FUND INSOLVENCY AND DEBT IN MICHIGAN

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Without changes in Michigan's current unemployment insurance (UI) law, the state's UI debt of $1.6 billion, as of mid-1982, will probably rise to about $2.8 billion by the end of 1983 and to $3.8 billion by the end of 1985. Interest payments alone on these additional federal loans would amount to hundreds of millions over these years. Despite some slow, moderate decline, unemployment is likely to continue to be relatively high in Michigan for the next several years. Revenues produced by the state's existing UI tax structure will not come close to paying for expected benefit outlays, let alone repay any of the debt. Interest costs will have to be covered from other funding sources. Beginning with the federal UI payroll tax due for 1982, payable January 1983, Michigan employers will have to pay an additional penalty rate each year. The first penalty payment equals 0.3 percent of taxable payrolls; the rate rises progressively by 0.3 annually. Penalty tax proceeds, expected to total over $300 million through 1985, apply toward reducing the outstanding debt.

FINANCING OF UNEMPLOYMENT INSURANCE

Employers in Michigan are solely responsible for financing unemployment insurance benefits paid under the state's law, as is the case in all but three other states.[1] Currently, the state UI tax on Michigan employers ranges between 1.0 and 9.0 percent of taxable wages, the first $6,000 paid to each employee in a calendar year. The rate varies among employers on the basis of their experience with unemployment. New employers pay a standard rate of 2.7 percent for the first two years, after which experience rating begins to introduce some variation. Taxes and payrolls estimated for 1981 in Michigan indicated an average tax rate of about 4 percent of taxable payrolls, or about 1.3 percent of total payrolls.[2] For 1982, these rates are expected to average about the same. The estimated 1982 average tax rate for Michigan, on the basis of total payrolls, is above the national average, but lower than the average rates expected in 19 states.

State UI taxes paid are deposited in a state account maintained in the Unemployment Trust Fund in the United States Treasury. Each state has such an account. The Michigan account represents the trust fund reserves for benefits payable to the state's insured unemployed workers. These reserves may be used only for the payment of benefits or for the repayment of loans made to pay benefits. Funds

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are withdrawn to pay benefits, as needed, and tax revenues are deposited when collected.

Ideally, each state manages its UI finances so that sufficient reserves accumulate to handle benefit needs as they arise. Because of varying economic conditions, benefit needs can and do fluctuate widely over time. To remain solvent, the state's trust fund reserves must be ample to withstand a sudden heavy drain brought on by a steep rise in unemployment with its attendant soaring benefit costs, as occurs in recession periods. With few exceptions, state funds managed to remain solvent over the years, until the 1970s.[3] In that decade, in which two recessions occurred, insolvency became widespread. From 1972 through the end of June 1982, a total of 29 states exhausted their benefit reserves and required loans to continue the payment of benefits. Most, including Michigan, first borrowed in 1975 or 1976. As of June 30, 1982, 19 of these states were in debt for a total of $7.8 billion.

Besides the state UI tax, employers pay a federal UI tax. Specified under the Federal Unemployment Tax Act (FUTA), this tax currently applies also to the first $6,000 of wages paid to employees each year. The FUTA tax rate is 3.4 percent.[4] A credit of 2.7 percent is allowed against the full federal tax, however, to employers in states with approved UI laws.[5] The net federal tax therefore is 0.7 percent of taxable wages, a uniform rate payable by all private, for-profit employers throughout the country.[6] Revenues raised by the 0.7 percent net tax go into federal accounts in the Unemployment Trust Fund to finance UI administrative expenses,[7] the federal share of extended benefit costs,[8] and a federal loan fund from which states borrow if their own reserves are depleted. The loan fund was established in 1954. Provisions for borrowing and repayment have been amended often. Loans made before April 1, 1982 and still outstanding are interest-free; loans made from that date on do bear interest.

THE MICHIGAN UI TAX STRUCTURE

The state's present UI tax is made up of three components, each contributing to the overall tax rate assigned to each employer. These include:

(1) A chargeable benefit component (CBC)—a rate ranging from 0 to 6.0 percent based on experience as measured by the employer's benefit ratio, i.e., benefits charged to an individual employer's account over the last five years taken as a percent of that employer's taxable payrolls in those years.

(2) An account building component (ABC)—a rate ranging from 0 to 2.0 percent based on the balance in an employer's account (all past benefits charged less all taxes paid, excluding NBC taxes—see below) compared with what the balance should be to meet a minimum solvency standard. The extent to which the employer's account balance falls below its required minimum solvency level is calculated, and a fraction or multiple of 0.25 of this deficiency is divided by the employer's total payroll for the year. The result is taken as the ABC rate for the tax year, up to the maximum of 2.0 percent.[9] Although calculated as a percent of total payroll, the ABC rate is applied to taxable payroll.

(3) A nonchargeable benefit component (NBC)—a uniform tax rate, currently at its maximum level of 1.0 percent, to cover certain pooled costs, including benefit costs of employers who go into bankruptcy and the state share of extended benefit costs.[10]

All component tax rates apply to a state taxable wage base of $6,000. The total combined rate ranges from 1.0 to 9.0 percent. The first two components—the CBC and ABC—represent the experience-rated portion of the tax.

Two other details about the tax structure should be noted. With regard to the CBC and ABC rates, whenever the combined total of these rates equals or exceeds 4.0 percent, the amount of any increase in the tax rate from one year to the next is limited to 0.5 of a percentage point even though the experience rate calculations would call for a larger increase. There is no limit on rate reduction. Another special provision allows a credit against the NBC rate for half the rate increase in the FUTA tax imposed for debt repayment. Thus, a FUTA rate increase of 0.3 paid in one year would reduce the following year's NBC rate by 0.15, a 0.6 rate increase would reduce it by 0.3, and so on.

The existing state UI tax structure and taxable wage base were established in 1978. Table 1 shows what that structure has produced in recent years. Clearly, the taxes generated in 1980 and 1981 fell far short of benefit outlay levels in those years. With no reserves available, the shortfall created the need for substantial borrowing.

STATE ELIGIBILITY AND BENEFIT PROVISIONS

On the eligibility and benefit side of the program, the following provisions are important to the discussion of various possibilities available for dealing with the insolvency problem:

(1) To qualify for any benefits, a claimant must have worked, during a 52-week base period preceding the first claim, in at least 18 weeks with earnings of no less than $67 in each week (20 times the minimum hourly wage of $3.35).

(2) There is no waiting week—benefits are payable for the first valid week of unemployment claimed.

(3) The weekly benefit amount (WBA) payable is 70 percent of the claimant's average weekly wage earned in the base period, less any income and social security taxes applicable, up to a maximum WBA equal to 58 percent of the statewide average weekly wage in covered employment. The current maximum WBA is $197.

(4) Regular benefits are payable for from 13.5 weeks to a maximum of 26 weeks of unemployment on the basis of 3 weeks of benefits for 4 weeks of employment in the base period.

(5) Extended benefits are payable during periods of high unemployment in the state and add 50 percent to the claimant's regular benefit duration entitlement, up to a combined maximum of 39 weeks. Extended benefits have been payable in Michigan because of its high rate of insured unemployment. (The federal government covers half the cost of extended benefits paid to claim-

ants with at least 20 weeks of base-period employment, but will not cover costs for the first week if the state has no waiting week for regular benefits.)

(6) Claimants who quit their jobs without good cause or are discharged for misconduct are disqualified; they may draw no benefits until after they have worked long enough to earn at least a minimum amount of wages and then are subsequently laid off under nondisqualifying conditions.

Provisions (1), (3), and (6) were enacted in 1980, but for only a limited period. They expire March 31, 1983, after which earlier provisions are to be restored. These are:

(1) A minimum requirement of 14 weeks of work with earnings of at least $25.01 per week.

(3) A WBA equal to 60 percent of the claimant's gross average weekly wage up to a maximum, based on the number of dependents claimed, ranging from $97 for claimants with no dependents to $136 for those with four or more dependents.

(6) Disqualifications for voluntary quits and misconduct discharges suspend benefits for 13 weeks, with a comparable reduction in duration entitlement; benefits may be drawn for unemployment after the suspension period ends.

PAST AND RECENT BORROWING

Michigan qualified for and drew a federal loan of $113 million early in 1958, although its own reserves, apart from the borrowed funds, never did run out completely at that time. Since no interest was charged and repayments were not required to begin until more than four years had elapsed after the loan was made, repayments did not begin until 1963.[11] The debt was fully liquidated in 1967.

The recession of the mid-1970s was a severe one, hitting Michigan hard. By early 1975, the state's benefit reserves were exhausted and borrowing began. Over the next two years, the debt accumulated to a total of $624 million. Repayment was not required until November 1980. If not repaid by then, debt reduction was to take place through a series of increases in the FUTA net tax rate on Michigan employers. During the late 1970s, the state's economy experienced fairly good recovery. Benefit outlays declined well below 1975 levels, while expanded employment and payrolls combined with increased UI tax rates to rebuild the fund to a level where it was possible to repay the entire debt. In December 1979, the debt was repaid in full.[12]

During the latter part of 1979, however, the Michigan economy was again deteriorating. As benefit outlays rose sharply early in 1980, remaining benefit reserves were depleted quickly and borrowing from the federal loan fund resumed. Such borrowing has continued off and on since then, as unemployment has remained high. By the end of March 1982, the debt had grown to $1,563 million, none of which was subject to interest. Additional substantial borrowing is expected in the second half of 1982 and thereafter. The interest payable on debt incurred after March 31, 1982 is an obligation of the state but may *not* be paid from UI trust fund reserves.

REPAYMENT PROVISIONS[13]

Federal rules currently in effect call for repayment of the Michigan UI debt by November 1982. If it is not repaid by then, progressive increases in the FUTA tax rate are imposed each year on Michigan employers, the proceeds of which go to reduce the outstanding debt.[14] The net federal tax rate of 0.7 percent will rise by a 0.3 "penalty rate" to 1.0 percent of 1982 taxable payrolls, due for payment in Jenuary 1983, and by a 0.6 rate to 1.3 percent for 1983, payable January 1984. It will increase by a 0.9 penalty rate for 1984 payrolls and by 1.2 for 1985, to a total FUTA rate for that year of 1.9 percent. If the FUTA increase for 1985 does not eliminate all of the remaining debt, then an additional tax, through a "solvency rate" increase, will be imposed for that year, up to as much as another 1.5 percent of taxable wages.[15] The total federal tax payable, combining the penalty and solvency rates with the basic net rate of 0.7 percent, could therefore equal the maximum 3.4 percent of taxable payrolls in 1985 and later years, involving the loss of all of the federal tax credit normally allowed. The proceeds of the FUTA tax increases apply to reduce the outstanding loans in the order they were made, i.e., the oldest unpaid loans are retired first. That means that the interest-free portion of the debt will be repaid first through this process.

At any time, of course, the state may accelerate the rate of debt repayment. One incentive for doing so is to reduce the liability for interest. As debt incurred after March 31, 1982 increases, so will the interest that will be payable. Any repayments made from the state fund apply to the latest loans made which do bear interest. Another incentive for faster repayment is to limit, as far as possible, the FUTA rate increases which are imposed on all Michigan employers. A major concern with these increases is their effect on new employers who pay a standard state UI tax rate of 2.7 percent for the first two years. Combined with the federal rate, the total state and federal tax for new employers will probably go to 4.3 percent for 1984 and could go as high as 6.1 percent of taxable wages for 1985. Erforts to attract new industry to Michigan would be hampered by the increasingly discouraging disincentive of loading new employers with a repayment burden for past UI debt to which they had not contributed. To the extent that some FUTA increases may be unavoidable, some other type of relief for new employers may be needed.

Another concern with the uniform FUTA increases is that they tend to nullify much of the desired effect of experience rating, which appears to be strongly favored by the employer community in the state. All employers would share the debt repayment burden equally, in relation to their taxable payrolls, through the FUTA tax rate method of repayment, regardless of wide variations among them in their past benefit charges. To the extent that experience rating continues as a preferred policy in Michigan, the emphasis is on raising more of the necessary funds for repayment through the state's UI tax structure, particularly through its experience-rating components, than through uniform federal tax increases.[16]

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THE MICHIGAN ECONOMY

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Michigan Economic Indicators

Item	Year previous of latest month	Previous month	Latest month
Manufacturing workers:			
Average weekly hours, Michigan	38.6	40.1	38.2 (Sept.)
Average weekly hours, U.S.	39.5	39.0	38.8 (Sept.)
Average hourly earnings, Michigan ($)	10.70	11.21	11.34 (Sept.)
Average hourly earnings, U.S. ($)	8.16	8.51	8.59 (Sept.)
U.S. motor vehicle production (units)	580,993	504,472	570,570 (Sept.)
Michigan electricity usage (mil. kwh.):			
Industrial (mil. kwh.)	2,800	2,415	2,468 (June)
Residential (mil. kwh.)	1,594	1,510	1,563 (June)
Raw steel production:			
Michigan (000 net tons)	794	597	550 (Aug.)
United States (000 net tons)	10,120	5,719	5,538 (Aug.)
Consumer price index (1967 = 100)			
Detroit area	284.2	292.7	294.9 (Sept.)
United States	279.3	292.8	293.3 (Sept.)
U.S. producer price index (1967 = 100)	295.5	300.6	299.5 (Sept.)
Michigan farm prices received index (1977 = 100)	131	127	120 (Aug.)

Source: U.S. Bureau of the Census; U.S. Bureau of Labor Statitstics; Michigan Crop Reporting Service; Ward's Automotive Reports; American Iron and Steel Institute; and Energy Information Administraton.

Contracts for Future Building, First 9 Months: 1981 and 1982

(Thousands of Dollars)

Area	Nonresidential			Residential			Total[a]		
	1981	1982	Percentage Change	1981	1982	Percentage Change	1981	1982	Percentage Change
Ann Arbor	47,492	55,784	+ 17	28,223	16,261	− 42	75,715	72,045	− 5
Battle Creek	14,630	46,954	+121	11,763	8,097	− 31	26,393	55,051	+109
Bay City	9,331	5,906	− 37	5,123	6,545	+ 28	14,454	12,451	− 14
Detroit	626,713	336,055	− 46	283,246	213,686	− 25	909,959	549,741	− 40
Flint	33,072	17,681	− 47	29,182	21,723	− 26	62,254	39,404	− 37
Grand Rapids	101,677	66,310	− 35	94,396	59,385	− 37	196,073	125,695	− 36
Jackson	12,968	5,334	− 59	13,597	7,504	− 45	26,565	12,838	− 52
Kalamazoo-Portage	34,783	59,604	− 71	57,872	25,254	− 56	92,655	84,858	− 8
Lansing-East Lansing	44,871	37,203	− 17	86,208	30,109	− 65	131,079	67,312	− 49
Muskegon-Norton Shores-Muskegon Heights	7,913	16,679	+111	20,104	10,320	− 49	28,017	26,999	− 4
Saginaw	10,660	17,314	+ 62	18,878	8,589	− 55	29,538	25,903	− 12
Toledo	126,726	87,403	− 31	115,341	66,319	− 43	242,067	153,722	− 36
Michigan	1,096,022	750,266	− 32	925,189	627,697	− 32	2,021,211	1,377,963	− 32
United States	45,264,100	45,367,100	0	47,970,600	41,756,800	− 13	93,234,700	87,123,900	− 7

SOURCE: F. W. Dodge Division of McGraw-Hill Information Systems Company, news releases.

Note: Battle Creek includes Barry and Calhoun counties; Detroit includes Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties; Flint includes Genesee and Shiawassee counties; Grand Rapids includes Kent and Ottawa counties; Kalamazoo-Portage includes Kalamazoo and Van Buren counties; Lansing-East Lansing includes Clinton, Eaton, Ingham, and Ionia counties; Muskegon-Norton Shores-Muskegon Heights includes Muskegon and Oceana counties; and Toledo includes Monroe County, Michigan, and Fulton, Lucas, Ottawa, and Wood counties, Ohio.

a. Excludes nonbuilding construction contracts. This category comprises streets and highways, bridges, dams, reservoirs, river and harbor developments, sewerage and water supply systems, missile and space flight facilities, airports, utilities, and communication systems. For Michigan the 1981 and 1982 figures for nonbuilding construction contracts were $645,753,000 and $423,727,000 respectively, or a decrease of 34 percent. For the United States they were $24,853,700,000 and $27,025,900,000 respectively, or an increase of 9 percent. Total bulding and nonbuilding construction contracts declined by 32 percent in Michigan and 3 percent nationwide.

Year-to-Year Change in Selected Economic Indicators

Indicator	Percentage change from previous year												
	1981				1982								
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
Civilian Employment													
United States	+ 1.1	+ 1.0	+ 0.7	0	− 0.3	− 0.5	− 0.9	− 1.5	− 0.9	− 0.7	− 1.1	− 1.0	− 0.5
Michigan	+ 1.7	+ 1.9	+ 1.4	− 2.5	− 2.1	− 1.0	− 3.4	− 5.0	− 3.5	− 5.0	− 3.0	− 4.0	− 4.0
Detroit area SMSA[a]	+ 0.8	+ 0.6	+ 0.6	− 3.7	− 3.0	− 2.2	− 4.3	− 5.8	− 4.2	− 5.8	− 4.0	− 4.6	− 4.8
Outstate[b]	+ 2.5	+ 2.9	+ 2.1	− 1.5	− 1.3	− 0.1	− 2.7	− 4.4	− 2.9	− 4.4	− 2.2	− 3.5	− 3.3
Wage and Salary Jobs[c]													
United States	+ 1.4	+ 1.1	+ 0.5	− 0.1	− 0.5	− 0.5	− 0.8	− 1.1	− 1.1	− 1.4	− 1.7	− 2.1	− 2.5
Michigan	+ 0.3	− 1.9	− 2.9	− 4.3	− 4.4	− 4.0	− 4.5	− 5.4	− 5.1	− 5.0	− 5.1	− 4.2	− 5.5
Detroit area SMSA[a]	− 0.7	− 2.6	− 3.5	− 5.0	− 4.7	− 4.7	− 4.8	− 5.7	− 5.5	− 6.0	− 5.3	− 4.6	− 6.3
Outstate[b]	+ 1.2	− 1.2	− 2.3	− 3.6	− 4.1	− 3.3	− 4.1	− 5.1	− 4.8	− 4.1	− 4.9	− 3.9	− 4.7
Average Workweek[d]													
United States	− 0.8	− 0.3	− 1.2	− 2.2	− 7.0	− 0.8	− 2.0	− 2.5	− 2.7	− 2.5	− 1.8	− 2.3	− 1.8
Michigan	− 3.5	− 1.5	− 2.7	− 4.3	−10.5	+ 2.3	− 2.9	− 1.0	− 2.2	− 0.5	+ 1.0	− 1.2	− 1.0
Average Weekly Earnings[e]													
United States	+ 9.0	+ 8.5	+ 6.6	+ 5.0	+ 1.3	+ 6.8	+ 5.0	+ 4.2	+ 3.8	+ 4.1	+ 4.7	+ 3.6	+ 3.4
Michigan	+ 6.9	+ 7.5	+ 5.9	+ 2.7	+ 1.9	+11.0	+ 5.2	+ 7.2	+ 5.6	+ 7.4	+ 9.6	+ 5.3	+ 4.8
Motor Vehicle Assembly													
United States	−12.4	−18.4	−24.6	−24.2	−33.1	−23.7	−15.7	−16.2	−14.3	−12.7	− 3.5	+ 1.4	− 1.8
Michigan	+ 7.3	− 3.5	−13.6	−20.4	−19.4	− 8.3	− 6.9	− 4.3	− 6.9	− 4.8	+ 4.4	+ 9.2	+ 8.3
General Motors	+ 7.5	+ 4.3	− 6.2	− 9.7	−16.3	+ 3.1	−12.3	−12.1	−14.4	+ 1.3	+15.6	+36.4	+17.0
Ford	+14.1	−10.5	−30.7	−53.7	−46.0	−19.5	+ 9.2	+16.8	+19.5	− 6.6	− 1.0	−28.2	−13.8
Chrysler	− 9.9	−22.8	−11.8	−12.7	+20.2	−44.5	− 6.8	− 0.8	−13.5	−30.0	−43.6	+ 4.7	+21.4
Steel Tonnage Poured													
United States	+23.8	− 4.7	−20.8	−24.6	−26.9	−28.4	−31.5	−37.9	−41.3	−42.1	−43.7	−45.3	
Michigan	+25.3	−21.4	−22.4	−13.3	−35.1	−35.8	−34.2	−25.8	−21.7	−23.3	−24.6	−30.7	
Commercial Electricity Consumption													
United States	− 0.3	+ 1.7	+ 2.1	+ 2.3	+ 4.0	+ 5.1	+ 5.5	+ 5.6	+ 1.8	− .1			
Michigan	− 0.2	− 1.9	− 2.6	0	− 2.8	+ 4.0	− 0.8	+ 1.9	− .2	− 1.9			
Industrial Electricity Consumption													
United States	+ 2.0	− 0.4	− 2.2	− 6.4	− 6.2	− 6.9	− 6.0	− 7.9	− 9.1	−11.1			
Michigan	− 0.8	− 9.7	− 7.6	−19.4	−10.7	−17.2	− 9.6	−11.2	− 8.8	−11.9			
Nonresidential Construction Contracts													
United States								−16	−15	+10	−10	0	+ 2
Michigan	−11	−38	−76	−52	−24	−52	−14	−55	−62	+30	−37	−33	−23
Residential Construction Contracts													
United States								−15	−29	− 5	−12	+11	+14
Michigan	−36	−47	−60	−53	−44	−58	−47	−42	−36	−29	−40	−33	−28
Nonbuilding Construction													
United States								+ 8	+ 5	+ 8	+ 7	+52	+18
Michigan	+32	− 8	−17	+ 9	+ 7	−52	−37	−72	− 1	−23	−36	−36	− 5
Retail Sales													
United States	+10.9	+ 6.3	+ 4.7	+ 5.7	+ 0.2	+ 2.7	+ 2.6	+ 2.6	+ 3.8	+ 1.1	+ 2.2	+ .2	
Michigan	+ 7.3	+ 1.3	+ 0	+ 0.5	−11.2	− 6.3	− 5.7	− 5.3	+ 0.3	− 4.2	− 2.8	− 4.4	
Detroit Area[a]	+ 4.3	− 1.6	− 2.6	− 3.9	−17.2	−13.6	−14.3	−14.6	− 8.3	− 9.7	− 8.1	− 9.1	
Outstate[b]	+10.5	+ 4.9	+ 2.9	+ 5.7	− 4.2	+ 2.2	+ 4.2	+ 5.7	+ 9.9	+ 1.2	+ 2.7	+ .4	
Consumer Price Index													
United States	+11.0	+10.2	+ 9.6	+ 8.9	+ 8.4	+ 7.7	+ 6.8	+ 6.6	+ 6.7	+ 7.1	+ 6.3	+ 5.9	+ 5.0
Detroit[a]	+ 9.5	+ 6.5	+ 5.0	+ 3.2	+ 4.6	+ 2.8	+ 3.7	+ 4.1	+ 3.9	+ 3.1	+ 3.3	+ 3.2	+ 3.8

Source: Michigan Employment Security Commission, special release; Bureau of Labor Statistics, **The Employment Situation** (monthly); Motor Vehicle Manufacturers Association, special release; American Iron and Steel Institute, special release; Energy Information Administration, special release; F. W. Dodge Division of McGraw-Hill Information Systems Company, news releases (monthly); and Bureau of the Census, **Monthly Retail Trade.**

a. Wayne, Oakland, Macomb, Livingston, Lapeer, and St. Clair counties.
b. Michigan minus Detroit area.
c. The number of wage and salary jobs, except agricultural, reported by employers.
d. Average hours worked by manufacturing production workers.
e. Average earnings among manufacturing production workers.

UI FUND INSOLVENCY AND DEBT

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Amendments enacted in 1981 of the federal repayment provisions made it possible for a debtor state to qualify its employers for a ceiling or "cap" at 0.6 on the FUTA rate increase imposed for repayment purposes, or at a higher level of increase. For example, if the qualifying conditions are met, the 0.6 rate increase applicable for Michigan employers for the 1983 taxable year would apply for subsequent years (through 1987), or the 0.9 increase for 1984 could hold at that level for the next three years. To qualify for a cap after 1983, the following conditions must be met:

(1) No action is taken after August 1981 that reduces the state's UI tax effort.

(2) No action is taken after August 1981 that reduces the solvency of the state's fund, such as legislating benefit increases without compensating tax increases.

(3) The outstanding debt as of September 30 of the year for which the federal tax cap applies is not larger than the balance outstanding three years before. (For a 0.6 cap on the increase for 1984 in Michigan, for example, the debt balance on September 30 that year may not exceed the $1,015 million balance outstanding on September 30, 1981.)

(4) The average state UI tax ratio for the year of the federal tax cap is not less than the average of annual benefit-cost ratios of the five preceding years. (For this purpose, the average state tax ratio is total taxes paid into the state fund as a percent of total payrolls of taxable employers, and the annual benefit-cost ratio is total benefits paid out of the state fund during the year plus interest paid on loans as a percent of total payrolls for the year.)

At this time, qualifying for a cap on the FUTA increases appears to be remote as a possibility for Michigan, certainly at the 0.6 level. A 0.9 cap in 1985 may not be out of reach entirely, but it would be very difficult to achieve under conditions now foreseen.

THE OUTLOOK—INCREASING DEBT AND HIGHER TAXES

Given current economic expectations and no changes in existing UI provisions, the prospects are for substantially more borrowing by the state fund over the next several years. Recent estimates made by the Michigan Employment Security Commission (MESC) show a continuing shortfall in state UI tax revenues during the 1982-85 period when benefit outlay projections range between $1.4 and $1.8 billion each year, while state tax revenues total less than $900 million annually. The projected total shortfall over these four years is over $3 billion, carrying the debt to more than $3.8 billion by the end of 1985 even after taking account of repayments made through FUTA tax increases in this period.

Not included on the above, since it is not paid from the trust fund, is the interest liability relating to funds borrowed after March 31, 1982. While very little interest is expected to be paid in 1982, the amount due in 1983 is estimated at about $84 million. While not estimated for later years, it is clear that the interest liability will rise steeply with the debt increases that have been projected.

The average Michigan employer faces rising UI taxes in coming years, even without changes in state tax provisions. As the high benefit outlays of the early 1980s increasingly dominate the five-year experience base used for calculating the chargeable benefit component of the state tax, the rates for many employers can only move upwards. Projections indicate that under the current law, the average state tax rate may rise from about 4 percent in 1981 to over 5 percent by 1985. The NBC tax credit for part of the FUTA penalty tax increase, however, would lower the 1985 net state tax rate to about 5 percent. Around the average, of course, tax rates vary considerably among employers because of experience rating.

A major division among employers is between those with negative and those with positive account balances.[17] At mid-1980 about 4 out of 10 employers had negative account balances; a year later, the proportion was nearly half. Negative account employers are mostly of two kinds. One type, such as found in construction and tourism, has significant seasonal operations followed by large layoffs about the same time every year. Employers of this type are always, or almost always, in a negative balance position, and are assigned at or near maximum tax rates. They include both high-wage and low-wage paying employers. The other type includes employers who are highly sensitive to recession conditions, such as firms engaged in durable goods manufacturing. Many are very large firms which pay high wages; automobile manufacturers are the leading examples. Since 1970, the proportion of all employers with negative balances has grown from about 20 percent to near 50 percent, mainly because of the impact of several recessions over these years. At mid-1981, all negative balances aggregated almost $1.5 billion, more than the amount of the fund's debt at that time. The state's UI tax structure has not been very effective in recouping as much of these heavy charges as one might expect considering the high maximum tax rate.[18] In 1981, fewer than 6 percent of all employers were at the 9.0 maximum rate; less than 10 percent had rates of 7.5 or higher. The largest concentration of taxable payrolls clustered at tax rates around the 5 percent level. The 0.5 limit on year-to-year rate increases has prevented greater concentration at higher rates. Among broad industry groupings, the UI tax rates in 1981 averaged highest in construction (6.3 percent), followed by manufacturing and mining (4.7 percent in each); finance, insurance, and real estate employers had the lowest average rate (2.6 percent).[19]

The federal net tax rate, currently at 0.7 percent, will rise as the rate increases for debt repayment are added. The total federal tax rate to be paid will be 1.3 for 1983, 1.6 for 1984, and could jump to as high as 3.4 percent for 1985, barring any efforts to accelerate debt repayment or a more rapid decline in unemployment than projected. After allowing for credits against the state tax rate for half the FUTA rate increases, up to the 1.0

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Brief

LIVING COSTS IN DETROIT

In Dallas, Texas, a thirty-eight-year-old male, employed full time, his wife with no outside income, his eight-year-old daughter, and his thirteen-year-old son could purchase a socially modest, but adequate, standard of living on an annual income of $22,678 at autumn 1981 prices. This figure put Dallas last in cost of living among 25 geographically dispersed urban areas in the United States. Honolulu at $31,893 was first. Detroit was fifteenth with $25,208.

The revised series on urban family budgets was initiated by the Bureau of Labor Statistics with the publication of "modest but adequate" living costs in the autumn of 1966 and has been updated periodically since.

The modest-but-adequate, or moderate, family budget, like the lower budget, allows "for the maintenance of health and social well-being, the nurture of children, and participation in community activities." However, more liberal allowances are made for quality, quantities, and "manner of living." "The moderate standard benchmark also plays a role in the collective bargaining process by providing a basis for evaluating the adequacy of earnings of experienced workers. It provides estimates of aggregate requirements for consumer goods, used in developing public policy, and in market analysis. Judicial decrees for support orders and alimony payments take account of the middle standard in determining either ability to pay or the recipient's need. The standard is used also to determine equitable amounts to pay for subsidized medical, mental health, or guidance services."[1]

The standard is a composite derived from budget studies of renters and homeowners, and automobile owners and families that rely exclusively on public transit. It does not purport to show how households actually spend their incomes. Market baskets of goods and services were decided upon for food, based on nutritional standards established for 1965 along with 1960-1961 spending patterns, and for all other consumer expenditures excepting payroll taxes, from 1960-1961 expenditures patterns. Payroll tax rates and income exemptions are kept current.

For the nation as a whole, the annual cost of a moderate budget for the urban family of 4 described above was $25,407.[2]

NOTES

1. John C. Brackett, "New BLS Budgets Provide Yardsticks for Measuring Family Living Costs," *Monthly Labor Review*, April 1969, p. 7.
2. Bureau of Labor Statistics, *News*, Bulletin 82-139 (Washington, D.C.: 1982), p. 2.

UI FUND INSOLVENCY AND DEBT

(Continued from page 6)

percent limit of the NBC rate, the combined average state and federal tax rate could rise from about 4.6 percent in 1981 to about 8.4 percent by 1985, based on current projections. It is important to bear in mind the assumption for these projections that the taxable wage base will continue at $6,000, for both state and federal tax rates. On the basis of projected total wages, the combined average state-federal tax rate could rise from approximately 1.5 percent in 1981 to about 2.3 percent in 1985. However one chooses to look at the problem, it represents a growing burden for Michigan employers generally.

Michigan's competitive position, vis-a-vis other states, in attracting new business and keeping the business it has is widely perceived as poor, although this view tends to be exaggerated.[20] High UI taxes are cited often as a negative factor in that connection. The outlook for continued high unemployment rates in the state and for mounting UI debt and taxes offers no relief from that perception. The discouraging effect of loading FUTA debt repayment increases on new employers was noted earlier. Firms which tend to have favorable UI cost experience and thereby qualify for low state rates would see their federal tax rates rise regardless, swamping the effects of experience rating. The state tax credits allowed for half the federal rate increases help to moderate that result, but not for new employers in their first years under the program. By itself, the existence of a serious and worsening insolvency problem with no plan yet in hand for dealing with it may be the most disturbing aspect of the state's UI program because of the uncertainties it poses about future costs for prospective new and expanding businesses.

TABLE 1
Selected Unemployment Insurance Financial Data for Michigan: 1979–1981[a]

Item	1978	1979	1980	1981
Total payrolls (billions)	$41.9	$45.4	$44.6	$47.5(E)
Taxable payrolls (billions)[b]	$17.1	$17.6	$16.4	$16(E)
Percent of total payrolls taxable	41%	39%	37%	34%(E)
Average employer tax rate (percent of taxable payrolls)	4.11%	4.03%	3.73%	4%(E)
Total taxes collected (millions)	$691	$724	$618	$624
Total benefit outlays, including state share of extended benefits (millions)	$424	$618	$1,293	$1,065

SOURCE: **Handbook of Unemployment Insurance Program Statistics**, Michigan Employment Security Commission, Bureau of Research and Statistics, pp. 2, 35, and 44.
(E) = Estimated.
a. Data for private, contributing employers covered by the Michigan Employment Security Act.
b. Based on taxable wage base of $6,000.

NOTES

1. Employees also help finance benefits in Alabama, Alaska, and New Jersey.
2. Taxable payrolls accounted for only about a third of total payrolls as estimated for 1981.
3. Prior to 1972, only Alaska and Pennsylvania actually had to use borrowed funds to pay benefits; Michi-

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UI FUND INSOLVENCY AND DEBT

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gan borrowed funds in 1958 but never had to use them to pay benefits. Several other states qualified for loans in the late 1950s but chose not to borrow.

4. Congress had under consideration in August 1982 a proposed increase in both the FUTA tax base and rate, to become effective in 1983.
5. The tax credit allowed to an employer is for state UI taxes paid up to the 2.7 percent level, but if the employer pays a state tax that is lower than 2.7 percent because of experience rating, the full 2.7 percent credit is allowed. All employers qualify for the full credit on this basis.
6. Nonprofit and governmental employers are not subject to the federal tax.
7. Annual federal grants to the states cover all their UI program administrative costs.
8. The state and federal governments share equally the costs of extended benefits paid to insured unemployed workers who exhaust their regular state UI benefits during periods of high unemployment.
9. The minimum solvency standard is 3.58 percent of total payrolls, representing the highest 12-month benefit-cost ratio experienced by the state since 1956. That occurred in the 12 months ending November 1975. The ABC tax rate for an employer is calculated by the following formula:

$$\frac{.25\ (.0358 \times \text{total payroll} - \text{current balance})}{\text{total payroll}}$$

10. An NBC tax applies as long as the total state fund (excluding debt outstanding) remains below a specified solvency position; as the fund rises sufficiently towards that level, the NBC rate declines and becomes zero when it reaches or exceeds that level.
11. Federal borrowing and repayment rules were stiffened after this experience.
12. Although repayment was not required until the following November, the funds available at the time would have gone to pay benefits in 1980 instead, leaving none for loan repayment, and the FUTA tax rate increases would have begun in 1980. The new loans necessary in 1980 were not due for repayment until November 1982. Full repayment of the earlier debt, therefore, postponed FUTA rate increases for two more years.
13. Provisions governing loans and their repayment are contained in Title XII of the Social Security Act and Section 3302 of the Federal Unemployment Tax Act; the repayment provisions were most recently amended by Section 2406 of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). Additional amendments were enacted by the Congress in August 1982.
14. The FUTA rate increase occurs through a reduction in the 2.7 percent tax rate allowed as credit against the full FUTA tax rate of 3.4 percent.
15. The added solvency rate is the amount, if any, by which the average state UI tax rate (based on taxable wages) for the year falls short of the average annual benefit outlay of the prior five years as a percent of taxable payrolls for the year. The penalty and solvency rates combined may not exceed 2.7 percent, the amount of the full tax credit normally allowed. An amendment enacted in August 1982 will eliminate the solvency rate increase.
16. Congress amended the repayment provisions in August 1982 to allow states to pay the penalty tax amounts out of state UI funds instead of FUTA tax increases.
17. A negative balance occurs when the employer's tax payments from the CBC and ABC tax components have not been enough to cover past benefit charges.
18. The maximum tax rate has been 9.0 percent since 1981. It was 8.5 in 1980, 8.0 in 1979, and 7.5 in 1978.
19. Material in this paragraph is based on data supplied by MESC.
20. See Timothy L. Hunt, *The Business Climate in Michigan* (Kalamazoo, MI: The W. E. Upjohn Institute for Employment Research, 1982).

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BARGAINING UNITS FOR STATE GOVERNMENT

by JAMES E. MARTIN, *Associate Professor, Management and Industrial Relations, School of Business Administration, Wayne State University, and* RICHARD L. SMITH, *General Motors Corporation*

Is one's occupation in state government a more appropriate basis for collective bargaining than the department in which one works? Many experts in labor management relations say yes for three basic reasons. First, occupational bargaining units facilitate greater uniformity in benefits and working conditions among people with similar jobs. Second, since state government employees fall in fewer occupational than departmental categories, the labor-management negotiating process is simpler. Fewer negotiations allow both sides to use more sophisticated professional negotiators and reduce union competition in the form of "leapfrogging" or "whipsawing" of settlements. Third, costs are reduced through both the containment of union competition and the reduction of administrative costs in negotiating agreements. In addition, many job classifications cross departmental lines, and occupational units eliminate the problem of bargaining separately with unions representing employees in the same classificaiton but different departments. These arguments, based primarily on impressionistic qualitative data and authoritative opinion, have now been generally accepted by policy makers without any quantitative empirical research support and little qualitative support.

PREVIOUS RESEARCH

Most of the arguments for smaller or departmental units focus on the attention that can be given to particular groups of employees. For example, Seidman and Staudohar recognized that the interests of small groups within broad occupational statewide units might be overlooked and questioned whether such units would be an effective vehicle for the resolution of purely local issues.[1] Summers felt that in a very large unit, whether departmental or occupational, the diverse interests of employees might not be resolved by the union, resulting in the union making many demands designed to satisfy its different constituencies. Thus Summers concluded, based on his observations of bargaining in several cities, that "while multiple bargaining units add to the employer's negotiating burden, that cost may be less than negotiating with a conglomerate union which is trying to represent greater diversity than its internal processes can reconcile."[2]

While the literature suggests that departmental units offer some potential advantages over broad occupational units, in certain areas there are also some potential disadvantages associated with such units. For example, intraorganizational bargaining problems could result in trying to meet the diverse needs of different occupational groups within one departmental unit. Because of that, Begin concluded such a unit was particularly susceptible to factionalism, and that factions could bypass the union leadership in a form of multilateral negotiations to deal directly with the employer or an employer faction.[3] Large departmental units also share some of the size-related problems of large occupational units.

Government in Distress, by David I. Verway / page 3

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A review of the literature found two empirical studies which examined the impact of alternative bargaining unit structures in the public sector on different outcomes.[4] However, both examined only local government municipalities and special districts. In addition, both studies compared departmental units with intradepartmental occupational units. These were more like narrow craft units within a department instead of a grouping of all similar classes, either across departments or within a particular department. For example, Perry and Angle surveyed public transit organizations by focusing on the bus operators' bargaining unit. Their overall results provided a mixed picture of the correctness of many of the traditional arguments presented in the literature concerning the consequences of particular bargaining structures. They found craft structures were associated with more favorable membership perceptions of internal union affairs. Departmental units were correlated with both more favorable union-management outcomes and organizational outcomes. Gerhart, on the other hand, found no significant relationship between an index of contract outcomes and departmental or craft-type occupational unit structures across governmental functions. He concluded that unit structure was so closely related to government function that it had no independent influence on bargaining outcomes. Thus, these two studies, while not dealing directly with the specific issue examined in this paper, raised questions about the conventional wisdom in this area.

Moore focused on the impact of alternative bargaining unit structures on productivity and organizational effectiveness.[5] He argued that departmental units were superior to broad occupational units and more in the public interest based on a number of criteria, including productivity bargaining, strikes, contract administration, and innovation. Moore's work, however, was not tested empirically.

A MICHIGAN STUDY

The authors obtained the November 1978 State of Michigan personnel records tape of all 55,000 nonsupervisory Civil Service state employees. Michigan was a particularly appropriate state in which to carry out a study since it had just changed its bargaining unit structure. Prior to 1978, units were based on departments with a limited scope of bargaining. While there were only twenty-one state departments, there were thirty units. This was because seven large departments placed their employees in "administration" or in the central office in separate units from the remaining employees. Most of those remaining employees were working in institutions or locations where the department actually delivered services to the public.[6] In addition, the Department of Social Services had one large unit for its employees located in Wayne County, where over 40 percent of the state's welfare recipients live, a large unit for employees involved in the delivery of social services in the rest of the state, and a small unit at its one institution. These units in theory were organized on a closer community of interest than a pure departmental structure would have been.

In 1978, twelve occupational bargaining units were established as follows: administrative support, business administrative, engineering and scientific, human services, human service support, institutional, labor and trades, safety and regulatory, security, state police, technical, and supervisory. The scope of bargaining was also increased for the new units.

The nine thousand employees in the supervisory unit were excluded from the study because they could not achieve full bargaining rights.[7] Among the remaining units, statistical analysis was applied to determine the degree of uniformity as compared to that within departments. The analysis was based on age, race, sex, work location (urban or rural), tenure, and Civil Service assigned job level. Each of these factors was evaluated on the basis of the extent to which it was influenced by the occupational or departmental distinction.

Table 1 shows the results of the statistical analysis. Essentially, those figures suggest that the occupational and departmental distinctions make no difference in the age and tenure factors. In job level, occupation is responsible for 64.2 percent of the variability among civil servants compared with only 18.5 percent for departmental classification, i.e., occupation is about 3.5 times more homogeneous than department on job level. That difference means that there is generally a lesser range of job levels in the occupations with an accompanying restriction in the opportunities for career mobility when compared with the departments. Occupation accounts for 42.5 percent variability in sex, indicating that occupations are somewhat segregated by sex. Department only shows 21.3 percent variability in sex, so the departments are much less sexually segregated than occupations. Departments have 24.2 percent variability in location, about 60 percent more than occupations, a function of the type of service delivered and its corresponding urban or rural location. Statistically, departments show 14.2 percent variance in race, compared to about 3 percent accounted for by occupation, indicating that the departments are slightly segregated by race while the occupations have almost no segregation. When the greater homogeneity in sex by occupation is combined with the greater homogeneity of job levels, it indicates that affirmative action programs for women will be much more difficult to carry out within most occupational bargaining units when compared with departmental units.

Table 2 presents data on the highest civil service job levels within the different unit forms. For both departmental and occupational bargaining units, the number of units are tabulated by the highest job level which exists within those units. In addition, the number of employees in units which have that level as their highest level and the cumulative number and percent of employees which have that level or a higher level as their highest level are shown. The data show that the occupational units are much more limited by the highest job level than departmental units. The thirty departmental units have a significantly greater average highest job level than the eleven occupational units. Further exam-

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GOVERNMENT IN DISTRESS

by DAVID I. VERWAY, *Director, Bureau of Business Research, School of Business Administration, Wayne State University*

The burden of state taxes in Michigan declined for the second consecutive year, according to data released recently by the Bureau of the Census. During the 1981 fiscal year, the state ranked thirty-second in state tax burden compared with twenty-second in 1979. Alaska, because of its taxation of North Slope oil, topped the 1981 list. At the bottom stood New Hampshire, the only state with neither a general sales tax nor a general income tax.

The burden of local taxes in Michigan increased for the second year in a row, making Michigan thirteenth in this burden during 1981. Local treasuries here benefitted from property tax receipts fueled by the fast rise in valuation of residential real estate.

As it is used above, the term *tax burden* refers to the relationship between taxes and personal income. This yardstick is crude, among other reasons because a not inconsiderable proportion of taxes is levied on businesses, not households. Michigan's Single Business Tax is an example. While it is true that businesses pass the SBT on to the consumer to the extent possible, it also is true that the tax is reflected in reduced earnings by stockholders, management, and labor. Finally, to an unknown extent the SBT is passed on to consumers and stockholders in other states. Texans, for example, bear some of the SBT when they purchase Cadillacs, Oldsmobiles, or Buicks. On the other hand, they also derive tax benefits from our gasoline purchases.

Like other states, Michigan shares its revenues with local units of government. By law, 60 percent of state sales taxes are passed on to school districts; 15 percent is sent to cities, villages, and townships, and 25 percent goes into the state's general funds where it may be spent for education, welfare, and other programs at the discretion of the governor and legislature. The state keeps 44.5 percent of its gasoline tax receipts for its Comprehensive Transportation Fund, which must be spent on state transportation needs, as well as the transportation needs of counties, cities, and villages. SBT proceeds flow into the state's general fund; local units are reimbursed for revenues lost as a result of the repeal of the inventory property tax when the SBT was introduced. The individual income tax, horse race wagering tax, cigarette tax, and several other state levies are shared with local units on a formal basis similar to sales and gasoline taxes. The state also is required to make at least 41.6 percent of its expenditures through local units in compliance with a constitutional amendment which was adopted in 1978, the so-called Headlee Amendment.

Revenues flow from Washington to state and local governments as a result of a vast array of social, economic, and political concerns of Congress and the president. Washington pays half of Michigan's public welfare costs, for example, regardless of what the total dollar figure may be and irrespective of the amount of federal taxes collected from any source. Other federal programs of aid to state and local governments resemble earmarking employed so often by state governments. Most gasoline taxes, for example, are divided up among the states on a formula basis.

In 1981, about 22 percent of Michigan state and local government general revenues originated at the federal level; 42 percent was collected by the state, and 36 percent was derived locally. After earmarking and other intergovernmental transfers, the state controlled 42 percent and local units 58 percent of the total amount available that year. Only during 1973 did the state's share exceed the 1981 figure.

Nationally, the 1981 proportions were 40 percent controlled by the states and 60 percent by local units of government. Both here and across the nation, the long-term trend has been toward greater state control of state-local revenues. In 1960, for example, the state and local proportions were 32 percent and 68 percent compared with 36 percent and 64 percent nationally.

EXPENDITURES

Despite drops in enrollment and the number of classroom teachers, spending on public schools, the largest category of state or local outlay, increased at the same rate as the overall government expenditure total. Average teachers' salaries rose rapidly here, by 22 percent between October 1979 and 1981 compared with 17 percent nationally. Whereas in 1979 Michigan trailed Alaska, California, and New York in average teachers' salaries, by October 1981 we were second among states behind Alaska.

Public welfare, largely the responsibility of the state, is the second largest category in terms of expenditure. State outlays for public welfare increased 25 percent between 1979 and 1981, primarily as a result of increased caseloads since payments per recipient have increased relatively little. Medicaid, which absorbs nearly half the welfare dollar, also rose at a considerably more rapid rate than most other kinds of government services. Medicaid is provided at state and federal expense to welfare recipients and other medical indigents.

More than anything else, the Comprehensive Transportation Fund depends on gasoline taxes. Consequently, state and local government spending on highways, third largest of the broad categories, grew slowly in Michigan. Government support for higher education (fourth) and health and hospitals (fifth) barely increased. Together the top five categories listed in Table 2 account for over two-thirds of general expenditures.

These expenditure figures can be expressed as a percentage of personal income. From these data it may be concluded that government in Michigan is more expensive than it is nationally because of higher welfare and local school costs, and that gap increased between 1979 and 1981. The state spends less than the national norm on highways and on health and hospitals, and that gap is rising. In 1979 Michigan slightly exceeded the

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Michigan Economic Indicators

Item	Year previous of latest month	Previous month	Latest month
Manufacturing workers:			
Average weekly hours, Michigan	40.3	38.1	39.7 (Oct.)
Average weekly hours, U.S.	39.7	38.9	39.0 (Oct.)
Average hourly earnings, Michigan ($)	10.88	11.33	11.10 (Oct.)
Average hourly earnings, U.S. ($)	8.16	8.59	8.56 (Sept.)
U.S. motor vehicle production (units)	694,727	570,570	556,457 (Oct.)
Michigan electricity usage (mil. kwh.):			
Industrial (mil. kwh.)	2,800	2,415	2,468 (June)
Residential (mil. kwh.)	1,594	1,510	1,563 (June)
Raw steel production:			
Michigan (000 net tons)	579	478	413 (Oct.)
United States (000 net tons)	9,003	5,302	5,262 (Oct.)
Consumer price index (1967 = 100)			
Detroit area	281.5	294.9	295.2 (Oct.)
United States	279.9	293.3	294.1 (Oct.)
U.S. producer price index (1967 = 100)	296.1	299.5	299.2 (Oct.)
Michigan farm prices received index (1977 = 100)	130	119	116 (Oct.)

SOURCE: U.S. Bureau of the Census; U.S. Bureau of Labor Statistics; Michigan Crop Reporting Service; Ward's Automotive Reports; American Iron and Steel Institute; and Energy Information Administraton.

Contracts for Future Building, First 10 Months: 1981 and 1982

(Thousands of Dollars)

Area	Nonresidential			Residential			Total[a]		
	1981	1982	Percentage Change	1981	1982	Percentage Change	1981	1982	Percentage Change
Ann Arbor	49,129	60,356	+23	29,155	17,473	−40	78,284	77,829	−.6
Battle Creek	14,936	47,059	+215	12,790	9,051	−29	27,726	56,110	+102
Bay City	9,331	7,027	−24	5,632	7,070	+26	14,963	14,142	−5
Detroit	668,406	412,658	−38	304,323	253,389	−17	972,729	666,047	−32
Flint	36,424	20,304	−44	31,482	24,094	−23	67,906	44,398	−35
Grand Rapids	113,920	99,268	−13	106,992	65,020	−39	220,912	164,288	−26
Jackson	17,815	6,500	−64	14,839	9,373	−37	32,654	15,873	−51
Kalamazoo-Portage	37,709	64,856	+72	66,641	27,435	−59	104,350	92,291	−12
Lansing-East Lansing	45,896	40,079	−13	89,110	38,094	−57	135,006	78,173	−42
Muskegon-Norton Shores-Muskegon Heights	8,217	17,356	+111	21,810	12,413	−43	30,027	29,769	−.9
Saginaw	11,483	19,981	+74	19,695	14,246	−28	31,178	34,227	−10
Toledo	135,129	103,196	−24	122,899	76,238	−38	258,028	179,434	−30
Michigan	1,207,493	892,631	−26	1,018,137	732,485	−40	2,225,630	1,625,116	−28
United States	51,159,500	50,330,800	−2	52,752,800	47,332,500	−10	103,882,300	97,663,300	−6

SOURCE: F. W. Dodge Division of McGraw-Hill Information Systems Company, news releases.

Note: Battle Creek includes Barry and Calhoun counties; Detroit includes Lapeer, Livingston, Macomb, Oakland, St. Clair, and Wayne counties; Flint includes Genesee and Shiawassee counties; Grand Rapids includes Kent and Ottawa counties; Kalamazoo-Portage includes Kalamazoo and Van Buren counties; Lansing-East Lansing includes Clinton, Eaton, Ingham, and Ionia counties; Muskegon-Norton Shores-Muskegon Heights includes Muskegon and Oceana counties; and Toledo includes Monroe County, Michigan, and Fulton, Lucas, Ottawa, and Wood counties, Ohio.

a. Excludes nonbuilding construction contracts. This category comprises streets and highways, bridges, dams, reservoirs, river and harbor developments, sewerage and water supply systems, missile and space flight facilities, airports, utilities, and communication systems. For Michigan the 1981 and 1982 figures for nonbuilding construction contracts were $744,086,000 and $446,735,000 respectively, or a decrease of 40 percent. For the United States they were $27,649,600,000 and $28,904,100,000 respectively, or an increase of 5 percent. Total building and nonbuilding construction contracts declined by 30 percent in Michigan and 4 percent nationwide.

BARGAINING UNITS

(Continued from page 2)

ples of the differences in highest job level are shown by the fact that 77 percent of the state work force are in departmental units which have their highest level at seventeen or above, compared to 30 percent for the occupational units. Three percent of the state work force are in departmental units with a highest level of less than twelve (enlisted state police troopers) compared to 55 percent in the occupational bargaining units. Thus, under the occupational unit structure, promotional opportunities to higher level jobs within the same bargaining unit would be much more severely limited than under the departmental unit structure.

The cross-tabulation of the eleven occupational bargaining units with the thirty departmental units indicates that six of the eleven occupations have a majority of their employees employed in one departmental unit. Four of those have more than 90 percent of their employees in one departmental unit. Thus, the cross-tabulation shows that more than half the occupational bargaining units are primarily based in one department. This is a function of the distribution of occupations, and it suggests that those six occupational units may not be really independent of the departments. However, only 63 percent of all employees from those six departments were in the occupational unit which the department dominated, with the remaining employees located in other occupational units.

IMPLICATIONS

The data shown in Tables 1 and 2 support the use of departmental over broad occupational bargaining unit structures. The greater homogeneity of location in departmental over occupational units suggests that bargaining issues relating to urban or rural concerns would be more easily handled and resolved within a departmental structure. The differences in the distribution of the sexes and job levels have implications for affirmative action goals as well as career mobility. These will be more difficult to implement in occupational than departmental units. With several unions, or diverse locals of the same union, representing different occupations,[8] it is less likely that individuals will be able to move freely from one bargaining unit to another. While career mobility for all groups of employees will be affected, it will impact most severely on women because of the high degree of sex segregation in occupational units. The degree of racial and sexual segregation with departmental units does not pose a threat to the career mobility of those groups, because the departments contain both a much greater range of job levels and a significantly greater highest average job level than occupational units. In departmental units therefore, minorities, women, and others will be better able to progress to higher level jobs. They will not be able to move into those higher level positions within occupational units where no such positions exist and, thus, will have to move outside the bargaining unit.

In Michigan, promotions outside the bargaining unit entail a risk to the individual, because the use of seniority for layoff, bumping, and recall is partially controlled by the length of time in the occupational unit, although merit alone is used in making promotions. When an employee takes a promotion within the same department but in a different bargaining unit, that person has much greater exposure to being laid off than he or she would in a position in the same unit. Such a problem would not occur with a departmental unit structure. Thus, in states where the work-force size is subject to cyclical fluctuations of the economy, occupational units are likely to inhibit employee mobility if seniority is applied the way it is in Michigan. If, in addition, seniority within the bargaining unit were a factor in promotions, it would be an even greater hindrance to employee mobility.

In opposition to the interpretation of the findings presented here, one might argue that where differences were found between the two unit structures, they support the greater appropriateness of occupational units. The higher homogeneity of job levels in occupational units could suggest a greater employee community of interest within such units when compared to a more heterogeneous unit structure. Bargaining issues related to narrower classes of employees with similar job tasks could perhaps be more readily settled when dealing with a more homogeneous group of job levels. For example, both Begin and Summers suggested that intraorganizational bargaining problems could result in trying to meet the needs of different occupational groups within a departmental unit.[9] However, Summers has also argued that similar problems exist with occupational units in trying to meet the diverse needs of the different departmental groups. Further, the data in this study have shown how career mobility within the same unit would be much more limited with occupational units. A similar argument could be made that, because occupational units were much more homogeneous by sex, they could more readily handle issues of concern to one sex or the other and therefore be more appropriate. However, one of the major concerns of women today, and indeed of all employees, is career mobility. In addition, a basic tenet of public employment is that it is supposed to provide upward mobility through a career line of jobs.[10] The data again support departmental units over occupational units as more appropriate because of the ease of career mobility within the same bargaining unit.

Further questions about the appropriateness of the change from a departmental structure to an occupational one are raised by the cross-tabulation which found that more than half the occupational bargaining units were dominated by one department. In other states where occupational units are also dominated by one department, they have often become known by the names of their dominant department, e.g., in Illinois, the security and institutional units were commonly referred to as the "corrections" and "mental health" units. The same has happened in Michigan, with the news media referring to "the negotiations in the Michigan Employment Security Commission," rather than in the human service support unit.

One could argue that while some states may claim to have an occupational bargaining unit structure, in

reality they have some units dominated by one department and others organized by occupation which are a true interdepartmental mixture. One ramification of this is that where employees from one department constitute a majority of an occupational unit, the interests of employees and management from other departments in that unit may be neglected.[11] This would not be a concern with departmental units.

Another problem is that contract administration is more complicated with occupational than departmental units. For unions it means more departments to deal with and for managers it means more unions. In order to meet the employer efficiency criteria, a two-tier form of bargaining might accompany such departmental units. The pay plan, job classifications, all other economic items, and any other items affecting the budget, such as staffing issues, could be bargained for all state employee bargaining units together.[12] It is recognized that there are potential problems with this approach in that interunit and interunion rivalries may make it difficult to settle economic items. In addition, it may be difficult to make trade-offs between economic and noneconomic items.[13] However, the result in terms of bargaining economic items (but not departmental items) would be quite similar to what is already occurring in states which use pattern-setting or multiple-unit bargaining. It would also be similar to the results in states in which broad coalition bargaining takes place.

The use of a second tier of bargaining at the departmental level would protect the differences in community of interest among the departments from being lost to the forces of centralization. Items affecting individual departments and not having a budgetary impact—certain work rules and procedures, such as vacation scheduling—would be bargained at the departmental level. Because there is only one bargaining unit involved at the local facility level with departmental units, an optional third tier of bargaining could readily take place across all local facilities to handle issues of concern at the work place level far easier than with occupational units. This conclusion is similar to that of Weber that local issues may be better resolved by increasing the degree of decentralization in the bargaining structure.[14]

With the proposed bargaining unit structure, budgetary control would be centralized. Whipsawing would be avoided on economic items. Thus, this structure would readily adapt to the more stringent public sector financial climate of the 1980s as there would be only one set of economic negotiations. This would also facilitate liaison with the legislature concerning budgetary matters for which legislative approval is generally necessary or useful.[15] Departments would still maintain considerable autonomy, and administration of the agreement would generally remain in department hands. Summers has also argued that such tiered bargaining would best serve the interests of both employees and management by facilitating integration of decision making where necessary and allowing diversity where desirable.[16] Weber has spoken highly of this type of solution to resolve similar problems with either industrywide or companywide bargaining in the private sector.[17]

TABLE 1

Relationship of Occupation and Department to Job Level, Sex, Age, Tenure, Location, and Race in the Michigan Civil Service

	Percent of variability accounted for by	
Variables	Occupation	Department
Job level	64.2	18.5
Sex	42.5	21.3
Age	03.9	04.0
Tenure	08.0	09.1
Location	15.2	24.2
Race	03.2	14.2

TABLE 2

Highest Job Level by Bargaining Unit Type in the Michigan Civil Service

	Occupational units				Departmental units			
Highest job level	Number of units	Number of employees[a]	Cumulative number	(%)	Number of units	Number of employees[a]	Cumulative number	(%)
20	1	4,016	4,016	(7)	4	8,534	8,534	(15)
19	0				5	3,142	11,676	(21)
18	0				6	11,990	23,666	(42)
17	2	12,600	16,616	(30)	5	19,085	42,751	(77)
16	1	1,668	18,284	(33)	3	3,291	46,042	(83)
15	0				2	3,184	49,226	(88)
14	1	2,114	20,398	(37)	1	3,602	52,828	(95)
13	0				1	215	53,043	(95)
12	2	4,339	24,737	(45)	2	792	53,835	(97)
11	2	18,753	43,490	(79)	0			
10	1	9,540	53,030	(96)	0			
9	1	2,203	55,233	(100)	0			
8	0				0			
7	0				0			
6	0				1	1,863	55,698	(100)
TOTAL	11	55,233			30	55,698		

a. The number of employees varies because of missing data and because 456 individuals were not assigned to any occupation.

FOOTNOTES

1. Joel Seidman and Paul D. Staudohar, "The Hawaii Public Employment Relations Act: A Critical Analysis," *Industrial and Labor Relations Review* 26 (April 1973):924. Also see the discussion in Eli Rock, "Bargaining Units in the Public Service: The Problem of Proliferation," *Michigan Law Review* 67 (1969):1005.
2. Clyde W. Summers, "Public Employee Bargaining: A Political Perspective," *The Yale Law Journal* 83 (1974):1190.
3. James P. Begin, "Multilateral Bargaining in the Public Sector: Causes, Effects, and Accommodations," in *Management Handbook for Public Administrators*, ed. John W. Sutherland (New York: Van Nostrand Reinhold, 1978), 900.
4. James L. Perry and Harold L. Angle, "Bargaining Unit Structure and Organizational Outcomes," *Industrial Relations* 20 (Winter 1981):47–59; and Paul F. Gerhart, "Determinants of Bargaining Outcomes in Local Government Labor Negotiations," *Industrial and Labor Relations Review* 29 (April 1976):331–51.
5. Michael L. Moore, "Productivity Improvement in Government: The Effects of Department vs. Occupational Bargaining Unit Structures," *Journal of Collective Negotiations in the Public Sector* 8 (Fall 1979):319–22. Also see Michael L. Moore, Daniel Kruger, and Martin Gilmore, "A Triple Tier Collective Bargaining System for Productivity Improvement in Public Sector Employment Relations," *Journal of Collective Negotiations in the Public Sector* 9 (Winter 1980):1–16.
6. The Department of Labor separated employees involved with employment security, and enlisted state police and highway engineers were also in separate units from the remainder of their respective departments.
7. Hayford and Sinicropi found that more than half the jurisdictions they surveyed gave supervisors either no bargaining rights or less rights than they gave rank-and-file employees. See Stephen L. Hayford and Anthony V. Sinicropi, "Bargaining Rights Status of Public Sector Supervisors," *Industrial Relations* 15 (February 1976):44–62.
8. Four of the eleven bargaining units are represented by the Michigan State Employees Association, an affiliate of the Assembly of Governmental Employees. Two others are represented by the Service Employees International Union, one by the American Federation of State, County and Municipal Employees, three by separate independent employee associations, and one is not represented.
9. Begin, "Multilateral Bargaining," 900; and Summers, "Public Employee Bargaining," 1190.
10. See any typical textbook in public personnel administration. For example, see O. Glenn Stahl, *Public Personnel Administration*, 7th ed. (New York: Harper and Row, 1976), 57–73.
11. For a discussion of this neglect in relations to management, see Milton Derber, Charles Maxey, and Kurt Wetzel, *Public Management's Internal Organizational Response to the Demands of Collective Bargaining in the Twelve Midwestern States* (Washington: U. S. Department of Labor, Labor-Management Services Administration, 1977). For a discussion in relation to employee interests, see Summers, "Public Employee Bargaining," 1192.
12. An alternative to bargaining all economic items uniformly on a statewide basis is the use of what Begin calls "lump sum" budgeting. Here each bargaining unit would receive the same percentage of increase in economic items, Then union and management from each unit could allocate the monies in the different forms of wages, of fringes, and of changes in hours. See Begin, *op. cit.*, pp. 902–903. However, such a form of bargaining is likely to be opposed by civil service commissions because it would promote movement away from uniformity. See Moore, *op. cit.*; and Moskow, Loewenberg, and Koziara, *op. cit.*, p. 103.
13. If there is only one union involved, such trade-offs can be simplifed. See the discussion by Arnold R. Weber, "Stability and Change in the Structure of Collective Bargaining," in *Challenges to Collective Bargaining*, ed. Lloyd Ulman (Englewood Cliffs, N.J.: Prentice-Hall, 1967), 35.
14. *Ibid.*, 28–36.
15. Derber, Maxey, and Wetzel, "Public Management's Response."
16. Summers, "Public Employee Bargaining," 1192.
17. Weber, "Stability and Change," 35–36.

GOVERNMENT IN DISTRESS

(Continued from page 3)

national norm for spending on higher education; in 1981 it was about 10 percent below the norm.

	1979	1981
Local schools		
Michigan	5.14	5.07
United States	4.88	4.65
Public welfare		
Michigan	3.03	3.06
United States	2.37	2.42
Highways		
Michigan	1.35	1.26
United States	1.66	1.60
Higher education		
Michigan	1.05	.95
United States	1.03	1.05
Health and hospitals		
Michigan	1.01	.94
United States	1.03	.99
All other		
Michigan	6.72	6.55
United States	6.74	6.65
Total		
Michigan	17.99	17.83
United States	17.71	17.36

A LOOK AHEAD

When the *Governmental Finances, 1982–83* report is issued by the Bureau of the Census, it will show that Michigan has continued to decline in the ranking of burden of state taxation. Quite likely it also will reveal slippage in our ranking on local tax burden as well.

Within the state budget, higher education, highways, and health and hospitals have continued to bear the brunt of the budget malaise. Higher education is espe-

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cially vulnerable because it is perceived as having great flexibility to raise operating funds through tuition, fees, and borrowing. Another factor these days is the Headlee Amendment. As it now stands, the state would have to develop ways to send 71 cents to local units of government for each new dollar that it might wish to send to state-owned colleges and universities.

Even as the budget crisis worsens, however, evidence is mounting of a turnaround in the Michigan economy. If the upturn holds, personal income in this state will rise sharply during the January-March 1983 quarter and post good gains in the months beyond. State revenues will increase at a much slower pace because sales tax collections and some other categories tend to lag behind changes in general economic activity. Also, the demand for state services will continue to increase, if for no other reason than the unemployed will continue to exhaust their other resources and join the welfare rolls: those most in need of jobs are not first to be reemployed at the early signs of economic upturn. In other words, in the months ahead there is some evidence of light at the end of the tunnel. Although this year's deficit still will have to be dealt with through further cuts or tax increases, the revenue-expenditure balance should improve by summer, unless the general economic turnaround is nipped by rising interest rates as it was in 1981 and again in 1982. By fall, welfare rolls will be receding, thereby freeing resources for other programs at the same time that revenue is rising. Next year Michigan can begin to repair its damaged state institutions.

TABLE 1
State and Local Government Revenues in Michigan and the U.S.: 1979 and 1981

	Michigan			U.S.
	Revenues ($ millions)			
Item	1979	1981	Percentage change	Percentage change
State taxes				
Personal income	1,944	2,028	+ 4	+25
Sales	1,703	1,793	+ 5	+17
Corporation	992	944	− 5	+17
Motor fuels	507	438	−14	− 5
Other	872	974	+12	+25
TOTAL	6,018	6,177	+ 3	+20
Local taxes				
Property	3,335	4,200	+26	+15
Income	220	202	− 8	+28
Other	90	103	+14	+24
TOTAL	3,646	4,505	+24	+18
State aid	3,069	2,901	− 5	+20
Federal aid				
To states	2,380	2,928	+23	+24
To local units	1,020	1,166	+14	+ 9
Other general fund revenues[a]	1,686	2,368	+40	+49
Total revenues[a]	14,749	17,144	+16	+22

SOURCE: Bureau of the Census, **Governmental Finances in 1980–81** (Washington, D.C.: 1982), GF81, No. 5, Table 5; Bureau of the Census, **State Government Finances in 1981** (Washington, D.C.: 1982), GF81, No. 3, Table 7, and similar documents for 1979.
a. Excludes current charges for education and hospitals.

TABLE 2
State and Local Government Expenditures in Michigan and the U.S.: 1979 and 1981

	Michigan			U.S.
	Expenditures ($ millions)			
Item	1979	1981	Percentage change	Percentage change
Local schools	4,003	4,684	+17	+21
Public welfare	2,363	2,827	+20	+29
Highways	1,056	1,165	+10	+22
Higher education[a]	821	880	+ 7	+29
Health and hospitals[a]	791	864	+ 9	+24
Police protection	620	708	+14	+22
Interest on debt	492	634	+29	+32
Sewerage	485	567	+17	+26
Parks and recreation	469	467		+25
General control	401	467	+16	+23
Corrections	239	330	+38	+34
Financial administration	266	292	+10	+19
Fire protection	228	268	+18	+23
Urban renewal	130	258	+98	+50
Social insurance administration	98	148	+51	+26
General public buildings	128	130	+ 2	+14
Regulation	98	111	+13	+23
Other	1,336	1,661	+24	+20
TOTAL	14,024	16,461	+17	+24

SOURCE: Bureau of the Census, **Governmental Finances in 1980–81** (Washington, D.C.: 1982), GF81, No. 5, Tables 5 and 13, and a similar document for 1979.
a. General expenditure less current charges.